

CITY OF SHELL ROCK, IOWA
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF SHELL ROCK, IOWA

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CITY OF SHELL ROCK, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Larry Young	Mayor	January 2014
Benjamin DeWitt	Mayor Pro tem	January 2014
James DeWitt	Council Member	January 2014
Donald Bonzer	Council Member	January 2016
Rosalee Meyer	Council Member	January 2016
Edward Willert	Council Member	January 2016
Marilyn Hardee	Clerk/Treasurer	January 2014
Karl Nelson and Bruce Toenjes	Attorney	January 2014



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT

To the Honorable Mayor and
Members of the City Council:

I have performed an examination of the City of Shell Rock, Iowa pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Shell Rock for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. I reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. I reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.

11. I reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. I reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was not engaged to and did not conduct an audit of the operations of the City of Shell Rock, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Shell Rock, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shell Rock and other parties to whom the City of Shell Rock may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shell Rock during the course of my examination. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is fluid and cursive, with the first name "Larry" and last name "Pump" clearly distinguishable.

Charles City, Iowa
December 17, 2013

Detailed Recommendations

**CITY OF SHELL ROCK, IOWA
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013**

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash - handling, reconciling and recording.
- (2) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting
- (3) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll - Recordkeeping, preparation and distribution.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and journalizing.

Recommendation - I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.

Recommendation - The City should implement the controls necessary to protect the processing of computer information.

- (C) Financial Condition - The Special Revenue, Willow Tree First Addition Fund had a deficit balance of \$23,502 and the Capital Projects, 2012 Street Project Fund had a deficit balance of \$17,405 at June 30, 2013.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (D) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa state, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (E) Transfer Approval - The City authorized the transfer of funds from the Special Revenue, Cherry Street Bridge Project Fund to the Capital Projects, 2012 Street Project Fund on May 7, 2013 in the amount of \$17,405, however, the transfer was never made.

Recommendation - The City should make this approved transfer.

**CITY OF SHELL ROCK, IOWA
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013**

- (F) City Council Minutes - Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

- (G) Deposits of Receipts - I noted that receipts were not being deposited in a timely manner.

Recommendation - The City should establish a cutoff time during the day to allow the Utility Clerk to balance out and make a bank deposit the same day. This procedure would reduce the risk inherent in money being transferred between facilities and in funds being held overnight. The City would also earn additional interest income by having the funds deposited earlier.

- (H) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted one check with only one authorized signature. Also, the City Clerk signs the checks and controls the facsimile signature stamp used for countersigning checks.

Recommendation - Checks should be prepared and signed by one authorized individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature. To provide better internal control over the use of checks, someone other than the City Clerk should control the facsimile signature stamp.

- (I) Post-dated Checks - I noted the City is post-dating checks.

Recommendation - The City should avoid the use of post-dating checks.

- (J) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (K) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
David Green, Employee, Self-employed	Cleaning	\$ 1,985
Brad Young, Mayor's Son, Self-employed	Flooring	1,145

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

**CITY OF SHELL ROCK, IOWA
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013**

- (L) Receipts and Disbursements - The City's general ledger receipts and disbursements for the Enterprise, Garbage Fund did not agree with the Annual Financial Report.

Recommendation - The City's general ledger receipts and disbursements should agree with the Annual Financial Report.

- (M) Annual Urban Renewal Report (AURR) - The AURR report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved on January 8, 2013 and certified on January 9, 2013.

In addition, the following reporting exceptions on the Levy Authority Summary were noted:

The City understated the amount reported as TIF debt outstanding by \$604,169.

Activity of the Special Revenue, Tax Increment Financing (TIF) Fund, including beginning and ending cash balances does not agree with the City's general ledger.

Principal and interest payments on TIF certified debt should be paid from the TIF fund. Principal of \$40,000 and interest of \$11,450 was paid from the Debt Service Fund on the TIF debt.

The City understated the amount reported as year-end outstanding TIF obligations, net of the TIF Fund cash balance, by \$506,616. The amount reported was a deficit of \$19,513 and should have been a deficit of \$526,129.

Recommendation - The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records. Payments on TIF debt should be paid or transferred from the TIF Fund.